

Subject: 2020 Third Quarter Operating Budget Variance Report

Reference:

Date to Council: November 9, 2020

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Financial Planning

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To: Mayor and Members of City Council

Recommendation:

THAT City Council **RECEIVE FOR INFORMATION** the 2020 3rd Quarter Operating Budget Variance Report, including the updated COVID 19 financial impacts from the Chief Financial Officer and City Treasurer; and,

THAT the Chief Administrative Officer and the Chief Financial Officer & City Treasurer **BE DIRECTED** to monitor the 2020 Operating Budget and continue to seek further means of offsetting any potential variances that may arise.

Executive Summary:

The projected 3rd Quarter Variance report, including the updated financial implications of the City's response to the COVID-19 Pandemic is summarized in the following chart with the year-end projected variances estimated to the end of 2020. It is projected that once the grant funding announced by senior levels of government is factored in, the total net municipal financial impact for 2020 amounts to a preliminary deficit of approximately \$0.4M. Due to the extraordinary circumstances in 2020 resulting from the Pandemic, the 3rd Quarter report this year also includes the financial projections for various Government Business Enterprises (GBEs), namely the Windsor Detroit Borderlink Limited (WDBL) / Windsor Detroit Tunnel Corporation (WDTC) and YQG Windsor International Airport. Given the significant financial impacts to these entities caused by the COVID travel restrictions, the City will be including these losses in our Safe Restart Municipal Phase 2 submission for funding that will be submitted to the Province by November 6th. Once these GBE variances totalling \$9.4M are included, the overall corporate shortfall is projected to be **\$9.8M**.

Forgone revenues totalling \$39.4M when combined with additional costs resulting from the COVID pandemic of \$16.7M result in a total financial impact to the City of \$56.1M. This amount has been offset by reduced expenditures resulting from mitigation measures taken to date of \$17.9M and from grant funding from senior levels of government of \$28.7M, thereby resulting in a projected net municipal financial deficit to the City of \$9.5M. Once the Non-COVID Y/E estimated positive variance of \$9.1M is factored in, the total projected municipal variance exclusive of the impacts of various GBEs is a projected deficit of \$0.4M for 2020. It is noted, that the \$9.1M positive Non COVID related variance would in normal circumstances be transferred to the City's Budget Stabilization Reserve Fund at year end. Given however, the extraordinary deficits faced in 2020 as a result of the COVID 19 Pandemic it will be necessary to utilize this deferred transfer to the Reserve Fund to address the impacts in 2020.

Summary of COVID 19 & 2020 Year-End Financial Projections (Millions)			
	July 2020	Oct 2020	Variance
Foregone Revenue	\$35.9	\$39.4	(\$3.5)
Additional Expenditures	\$16.1	\$16.7	(\$0.6)
Total Estimated COVID 19 Financial Impacts	\$52.0	\$56.1	(\$4.1)
Less:			
Reduced (Mitigated) Corporate Expenditures	\$16.7	\$17.9	(\$1.2)
Announced Federal and Provincial Grants	\$5.6	\$28.7	(\$23.1)
Remaining COVID 19 Financial Deficit to be Offset	\$29.7	\$9.5	\$20.2
Less:			
Projected Q3 <u>Non-COVID</u> 2020 YE Positive Variance		\$9.1	
Total Municipal Q3 2020 Y/E Deficit Projection		\$0.4	
Add Government Business Enterprises (GBEs):			
YQG Windsor International Airport		\$3.2	
Windsor Detroit Borderlink Limited (WDBL) / Windsor Detroit Tunnel Corporation (WDTC)		\$6.2	
Overall 2020 Projected Y/E Deficit Including GBEs to be Offset by Additional Federal & Provincial Grants		\$9.8	

Background:

Annual operating budgets for all City departments are set at the beginning of the calendar year based on Council direction. Professional estimates, the current legislative environment, macroeconomic trends (such as currency fluctuations, commodity prices, unemployment figures and business investment, etc.) and other local information available at the time are significant inputs to the operating budget recommended to City Council by administration.

For 2020, the significant unanticipated variable has been the impact of the COVID 19 global pandemic. Since January of this year, the pandemic has spread around the world causing significant uncertainty, and impacting human behaviour and the world's economy.

It important to note that the Province and City are still dealing with the uncertainty of the pandemic and the US Border restrictions have been extended to at least November 21, 2020. Furthermore, while the City of Windsor has moved to Phase 3 of the provincial re-opening plan, many other regions have reverted to a Modified Phase 2 status, requiring increased restrictions on daily activity.

As a result of this crisis, many of the City's operations have been suspended, altered, continued with major restrictions, or increased to meet the demands resulting from the pandemic. An administrative report to Council on July 13, 2020 provided a preliminary status of the financial challenges. This report provides an update to the COVID 19 financial challenges provided in July and includes other Non-COVID related Y/E variance projections by each area.

All departments monitor revenues and expenditures on an ongoing basis and project through to the end of the year to ensure they remain at or as close to their approved budget as possible. This assists in mitigating all material variances as effectively as possible. As is typical with most forecasts, accuracy tends to increase as the year progresses and more information and data becomes available.

The City's 2020 annual budget includes a \$1.5 million corporate contingency line item to help offset any unforeseen variances and contingent liabilities that might materialize throughout the year.

In addition to the City's main operating budget, which is funded by the property tax levy, certain expenditures are funded by specific non-property tax levy sources such as Legislated Building Permits, On/Off Street Parking Operations and the Sewer Surcharge Operating Fund. It is noted that for this report, YQG and Windsor Tunnel operations have also been included in the variance projections given the magnitude of financial impacts these two entities are facing and in order to communicate the shortfalls they face as a result of the COVID 19 travel restrictions. The discussion section of this report provides additional detail and analysis of the current and projected status of these other entities.

Discussion:

Property Tax Supported Variances

The financial position of the Corporation is directly affected by uncontrollable factors such as COVID 19, weather conditions, unemployment rates, tax appeals, fuel and utility costs, interest rates, settlement of litigation brought against the City and social assistance caseloads. As a result, material fluctuations in the projected variances could occur in the wake of significant unforeseen events.

Based on information as at August 31st, 2020, Administration is projecting an estimated Corporate (including GBEs) year-end **deficit of \$9,806,000** (COVID-19 Deficit of (\$18,764,000) offset by Non-COVID-19 positive variance of \$8,958,000). This projection does not take into account the previously noted \$1.5 million contingency amount, which is expected to be transferred to the budget stabilization reserve and/or other appropriate reserves as may be determined at year end. Past practice as been to also transfer any year-end positive variance to the budget stabilization reserve. Given the financial impacts resulting from the COVID 19 pandemic on City operations, this will not be feasible this year. It is expected that a majority of any remaining positive variance at year-end will be required to offset deficits resulting from COVID 19 impacts.

Table A below provides a summary of the 2020 projected year-end variances as of the 2020 3rd quarter, from the largest dollar deficit to the largest surplus, for each of the City Departments and Agencies, Boards, Commissions & GBEs.

DEPARTMENT		2020 Gross Budget	2020 Net Budget	Q3 COVID Projection	Q3 Non-COVID Projection	Q3 Overall Projection	% of Gross Budget
CITY DEPARTMENTS							
33	Recreation & Culture	\$25,364,844	\$13,350,466	(\$2,200,000)	\$0	(\$2,200,000)	(8.7%)
16	Fire & Rescue	\$51,947,069	\$50,465,903	(\$567,000)	(\$182,000)	(\$749,000)	(1.4%)
9	Council Services	\$11,098,636	\$7,699,385	(\$345,000)	\$0	(\$345,000)	(3.1%)
14	Legal	\$17,542,706	\$6,776,133	(\$700,000)	\$462,000	(\$238,000)	(1.4%)
5	Finance	\$11,632,943	\$6,698,016	(\$538,000)	\$446,000	(\$92,000)	(0.8%)
22	Public Works	\$59,855,262	\$29,225,856	(\$439,000)	\$418,000	(\$21,000)	(0.0%)
7	Information Technology	\$8,224,564	\$6,949,125	(\$75,000)	\$65,000	(\$10,000)	(0.1%)
3	Mayor's Office	\$905,235	\$905,235	\$0	\$0	\$0	0.0%
11	Human Resources	\$6,296,537	\$5,632,658	\$50,000	\$0	\$50,000	0.8%
39	Huron Lodge	\$24,747,809	\$7,797,303	(\$506,000)	\$559,000	\$53,000	0.2%
2	City Council	\$1,031,469	\$846,469	\$43,000	\$12,000	\$55,000	5.3%
4	CAO's Office	\$1,336,637	\$1,336,637	\$0	\$100,000	\$100,000	7.5%
20	Engineering	\$26,928,097	\$1,803,675	(\$67,000)	\$202,000	\$135,000	0.5%
12	Windsor Public Library	\$9,276,250	\$8,204,629	\$138,000	\$0	\$138,000	1.5%
18	Planning & Building	\$11,386,647	\$4,869,545	\$0	\$207,000	\$207,000	1.8%
29	Parks & Facilities	\$41,450,753	\$27,937,707	(\$687,000)	\$1,226,000	\$539,000	1.3%
37	Housing & Children Services	\$121,172,301	\$23,767,957	\$123,000	\$732,000	\$855,000	0.7%
25	Transit Windsor	\$36,294,433	\$15,119,343	\$0	\$1,257,000	\$1,257,000	3.5%
35	Employment & Social Services	\$116,969,007	\$8,086,562	\$1,201,000	\$293,000	\$1,494,000	1.3%
42	Corporate Accounts *	\$242,097,940	\$24,349,243	\$219,000	\$1,405,000	\$1,624,000	0.7%
Sub-Total: City Depts		\$825,559,139	\$251,821,847	(\$4,350,000)	\$7,202,000	\$2,852,000	0.3%
AGENCIES, BOARDS & COMMITTEES							
47	Agencies	\$19,996,396	\$19,895,798	(\$1,345,000)	(\$65,000)	(\$1,410,000)	(7.1%)
49	Roseland Golf & Curling Club **	\$0	\$0	(\$476,000)	\$216,000	(\$260,000)	n/a
50	Police Services	\$109,490,813	\$92,126,606	(\$750,000)	\$750,000	\$0	0.0%
Sub-Total: ABC's		\$129,487,209	\$112,022,404	(\$2,571,000)	\$901,000	(\$1,670,000)	(1.3%)
Net Operating Budget Variance		\$955,046,348	\$363,844,251	(\$6,921,000)	\$8,103,000	\$1,182,000	0.1%
OTHER FUNDING SOURCES							
	Off Street Parking Reserve	\$2,844,276	\$0	(\$2,470,000)	(\$30,000)	(\$2,500,000)	(87.9%)
	Sewer Surcharge Reserve	\$70,989,803	\$0	(\$65,000)	\$786,000	\$721,000	1.0%
	Building Permit Reserve	(\$169,408)	\$0	\$0	\$217,000	\$217,000	(128.1%)
Sub-Total: OFS's		\$73,664,671	\$0	(\$2,535,000)	\$973,000	(\$1,562,000)	(2.1%)
Total Municipal		\$1,028,711,019	\$363,844,251	(\$9,456,000)	\$9,076,000	(\$380,000)	(0.0%)
Windsor Airport (YQG) ***		\$5,442,420	\$2,667,738	(\$3,178,000)	\$0	(\$3,178,000)	(58.4%)
Windsor Detroit Border Link ***		\$12,158,543	\$37,704	(\$6,130,000)	(\$118,000)	(\$6,248,000)	(51.4%)
Total: Including Government Business Enterprises (GBE's)		\$1,046,311,982	\$361,138,809	(\$18,764,000)	\$8,958,000	(\$9,806,000)	(0.9%)
Notes:							
* Included in the City's variance is a deficit of \$2 million in forgone dividends from Windsor Airport (YQG) & Windsor Detroit Border Link (WDBL).							
** Roseland Golf & Curling Club's gross / net budgets are not funded within the City's net operating budget.							
*** The Windsor Airport (YQG) & Windsor Detroit Border Link (WDBL) net budgets are revenue budgets.							

Administration is working to reduce the identified projected departmental variances by incorporating appropriate mitigating measures in the departments and reporting to Council on a quarterly basis. **Appendix A** identifies each department's variance, a detailed description of the variance, along with any mitigating measures.

Building Permit Reserve

Budgeted Transfer to Reserve	Projected Transfer to/(from) Reserve	Projected Year-End Operating Surplus
\$0	\$217,000	\$217,000

Administration at this time forecasts a \$217,000 operating surplus within the Building Services portion of the budget (direct costs). Staff gapping will contribute significantly to the operating surplus, due to delayed hiring of several positions and staff turnover during the year. Permit revenue estimates are based on the best information available and applications currently in process. Administration is not able to confirm whether the virus pandemic has had any material impact on permit activity, as activity has remained quite busy. However, typically larger scale projects tend to provide the majority of the permit fee revenue received and those types of projects are currently lower than observed in prior periods.

Administration makes concerted efforts to hold the line where possible on discretionary expenses within its control including delayed staff recruitments, while simultaneously navigating the challenging situation of this past year and striving to maintain a respectable and safe level of service within the community.

In addition, it should be noted that the projected operating surplus may be offset at year-end after the allocation of indirect costs upon the completion of the Annual Building Permit Reserve report, which could result in a potential draw from the reserve.

On/Off Street Parking Operations

COVID Projection	Non-COVID Projection	Overall Projection
(\$2,470,000)	(\$30,000)	(\$2,500,000)

The On-Off Street Parking Division is projecting an overall deficit for 2020 of (\$2,500,000). The projected deficit is the net of all surpluses and deficits expected for the year related to overtime, professional and contracted services, salary gapping, equipment purchases and maintenance, miscellaneous operating supplies, transfer to reserve, and revenue from all sources.

Due to the ongoing pandemic, surplus of \$30,000 is expected for staff overtime and \$20,000 for professional / contracted services due to reduced usage of parking garages

during the initial pandemic period of shut down and Phase II. Some reduction of usage is expected to continue through to the end of the year.

Surpluses of \$19,000 are expected related to salary gapping due to retirements and job transfers and \$15,000 for reduced equipment purchases and maintenance. Both surpluses are not directly related to the ongoing pandemic.

Deficits as a direct result of the ongoing pandemic are projected and include (\$8,000) for miscellaneous operating supplies required for PPE, office, and general staff items required. A deficit of (\$1,038,789) will be realized resulting from the required transfer to reserve for the year. Also included is an overall deficit of (\$1,473,000) related to all sources of revenue in garages, lots, and at meters. In addition to the pandemic related deficit, Administration is also expecting a regular deficit of approximately (\$64,000) for monthly parking revenue due to the delay in implementing a 2020 approved monthly fee increase.

The majority of the variance in the On-Off Street Parking Division is directly related to the ongoing pandemic.

Sewer Surcharge Funded Operations- Overall Surplus of \$721,000 is projected. The various components as noted below:

Pollution Control: (\$244,000) Deficit

Pollution Control is reporting an estimated deficit of (\$244,000) from its Sewer Surcharge funded operations.

Key Highlights:

- *The department is reporting an anticipated surplus of \$842,000 in Labour and Benefits net of work authorization recoveries, mostly due to gapping of hourly staff. Offsetting this surplus is an estimated amount of \$16,000 additional expenses in overtime and shift premiums that were needed due to COVID-19.*
- *Revenues received from WUC for the processing of backwash are anticipated to add a \$279,000 surplus.*
- *The department is also reporting an estimated surplus of \$119,000 in Utilities and Taxes, due to Utilities. The Utilities surplus was a result of various process and equipment upgrades that increased utilities efficiencies within Pollution Control.*
- *Revenues received from Sewage Treatment contribute a (\$55,000) anticipated deficit. This was caused by a drop in Leachate loads and septic that were processed. A portion of this would be related to COVID-19 as less outside septic haulers were having to use our services.*
- *Minor Capital expenses partially offset the previously identified surpluses by (\$857,000), with the majority of the expenses being comprised of a deficit of (\$803,000) in Maintenance Parts & Materials. This was due to a number of*

emergency projects as well as aging facilities that require more maintenance as items are breaking down. A portion of this was due to a broken down Blower that needed to have specialized repairs to be completed offsite.

- *Additionally, offsetting these surpluses was an estimated shortfall in Purchased Services (\$259,000). As with the minor capital expenses, emergency expenses that are caused by aging facilities were needed to keep the plant running. Included in this was the emergency work completed on damaged sludge line and re-lining of Tank #3.*
- *A further anticipated deficit of (\$289,000) is due to increased Chemicals usage and pricing.*
- *Due to COVID-19, First Aid Safety Supplies is contributing an anticipated deficit of (\$23,000).*
- *Miscellaneous estimated deficits totalling \$1,000 make up the remaining net deficits in the area.*

PW Operations: (\$104,000) Deficit

Public Works Operations has an anticipated surplus of \$139,000 for salary, wage, and fringe benefits due to various vacancies resulting in gapping. Offsetting this is an anticipated deficit of (\$243,000) for 2020 Flooding Mitigation expenditures incurred to combat overland/shoreline flooding.

Other Sewer Surcharge Related Expenses: \$1,069,000 Surplus

Other Sewer Surcharge-related expenses are anticipated to be in a surplus of \$1,069,000. Refunds and General Expenses, as well as EnWin administrative fee, are estimated to be in a surpluses of \$218,000 and \$171,000, respectively. Revenues are estimated to be in a surplus of \$680,000 from what was budgeted.

Windsor Detroit Tunnel & YQG Windsor Airport

The Windsor Detroit Tunnel and YQG Windsor Airport both have faced significant reductions in revenue in 2020 due to the pandemic and the resulting reduced air travel and the border restrictions imposed. The current year-end variance deficit projections for Windsor Detroit Tunnel and YQG are \$6.2M and \$3.2M respectively. As sole shareholder of these entities, these losses, while perhaps not directly reflected in the City's operating budget, have a significant impact on the City resulting in paused dividends, the requirement for the provision of cash flow loans, and permanent and long term equity/reserve reductions that will impact future capital investments in both facilities.

Given these concerns, Administration reached out to our contacts at the Ministry of Municipal Affairs & Housing and we recently received confirmation that financial relief for municipally owned GBEs (i.e. Windsor Tunnel, YQG) will be considered for funding as part of the Phase 2 Municipal Relief submissions. As such, Administration is

currently working with YQG & Windsor Tunnel staff to put forward a case to secure financial relief for these two entities which is due on Nov 6th.

As these organizations are wholly owned by the City, there is a high likelihood the City may be required to provide them financial assistance due to their losses in order to ensure they remain viable. To date the City is working with Windsor Detroit Borderlink Limited (WDBL) to establish a \$5 million intercompany open line of credit to assist with anticipated cash flow shortfalls expected in early 2021. As the Phase 2 funding for municipal operations includes recognition of external transfers and loans, and seeks to understand what unique circumstances a municipality may have to support the need for funding, Administration will include the projected losses for these GBEs in our Phase 2 submission request.

While there is no certainty that our application for financial relief will be successful, we feel it is necessary to put forth our submission for financial assistance to the Province for this unique situation. It is clear, that the extraordinary 2020 revenue losses of both entities are permanent foregone revenues that will not be recovered and therefore represent a permanent reduction in reserves/equity for future investments in the infrastructure requirements for both entities.

2020 Flooding Prevention

Throughout this year, water levels have remained extremely high, bringing with it the risk of localized flooding. The City has undertaken various flood mitigation measures, including offering sand and sandbags, where and as needed.

Although there have been costs of approximately \$275,000 associated with this event, departments have been able to generally absorb these expenditures within their departmental budgets. It is however possible that these costs may have an impact on the final corporate variance for 2020. Any variances will be reported at year-end.

Risk Analysis:

The largest risk by far this year has been the implications of the COVID 19 Pandemic and its impact on City operations.

Administration has attempted to quantify the impact of the COVID pandemic to the City's finances for the remainder of the year with the use of significant assumptions and uncertainty. As the situation continues to change daily due to COVID 19, it is extremely difficult to provide any degree of certainty as to the full financial impacts to the Corporation. There remain many variables, including:

1. The length of the crisis. It is still unknown when the restrictions will be fully lifted or if additional restrictions will need to be reinstated. Although we have projected the financial impacts to the end of the year, there remain significant uncertainties as to the recovery from the COVID 19 crisis.

2. The length of the transition period for things to return to “normal”. In some cases, entire seasons may be lost even if all restrictions are lifted.
3. The residents’ hesitation to return to their normal activities once the restrictions are lifted may further delay the financial recovery for the City.
4. The additional requirements and regulations that the City and others must follow as we transition and eventually return to a normal state.
5. The amount of additional senior level funding that will be made available to municipalities to offset the financial burden of the COVID Pandemic in 2020 and future budget years.
6. Pollution Control – There is a risk of significant maintenance and/or replacement costs for pumps caused by the increased use of disinfecting wipes that are being disposed of in the City’s sewer system due to the COVID pandemic. Staff will continue to monitor this area and report any significant variances.

As usual in a normal year, there are a number of other potential risks that can impact the year-end financial results as follows:

1. The Net Tax Additions/Reductions account is extremely difficult to project with certainty. There are still some significant appeals in progress and any variances in this account will vary dramatically based on the outcomes and timing of the settlements.
2. Current macro and micro economic conditions such as fuel costs, changes to local unemployment rates, volatility of energy costs, commodity prices and interest rates, as well as supply and demand for products and services.
3. Seasonal variability with respect to revenues (e.g. Recreation fees) and expenses (e.g. winter control).
4. Potential increase in staffing costs due to factors such as sick call replacement, modified duties (particularly in mandated or 24/7 operational areas), WSIB, joint job evaluation or other arbitration decisions, health benefit usage (Green Shield) and such other. Some of these costs may be covered by corporate provisions/reserves.
5. Potential increase to unavoidable expenditures such as unavoidable repairs and maintenance, related purchases of materials and supplies, legal expenses, streetlight maintenance, etc.
6. The significant use of estimates, historical knowledge and judgment in developing budgets and projecting actual expenses for the year implies that actual year-end revenues and expenditures may differ significantly from quarterly projections. One way to mitigate this risk and help to offset any unexpected or one-time variances is by way of the annual \$1.5 million corporate contingency account.

Financial Matters:

Refer to **Appendix A** for detailed descriptions of the projected year-end variances for each department separated between COVID 19 and Non-COVID 19 impacts, along with any mitigating measures.

Appendix B of this report has been updated to provide additional data. It includes a list of relevant operational and economic statistics (extracted from various sources) as background information and is depicted graphically for the current quarter, along with each of the preceding nine years for ease of reference and comparison purposes.

Consultations:

All departments, ABCs and GBEs provided comments to augment and clarify the analysis performed by the Finance Department.

Conclusion:

Administration is projecting a potential corporate (including YQG & Windsor Tunnel) year-end deficit estimated to be \$9.8M.

As indicated throughout the report, given the uncertainty around COVID 19 impacts and additional grant funding from senior levels of government, the third quarter operating budget year-end variance projection is subject to significant refinements as the fiscal year nears completion. Measures and steps have and will be implemented where possible in order to mitigate the negative budget risks. This includes apply for the additional Safe Restart Phase 2 funding for both municipal & transit operations.

Planning Act Matters:

N/A

Approvals:

Name	Title
David Soave	Manager, Operating Budget Development & Financial Administration
Tony Ardovini	Deputy Treasurer - Financial Planning
Joe Mancina	Chief Financial Officer & City Treasurer
Onorio Colucci	Chief Administrative Officer

Notifications:

Name	Address	Email

Appendices:

Appendix A – Detailed Descriptions of the Projected Year-end Variances

Appendix B – Operational and Economic Statistics